LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 6345 **DATE PREPARED:** Feb 25, 2002
BILL NUMBER: SB 276 **BILL AMENDED:** Feb 25, 2002

SUBJECT: Annual Actuarial Study of ICHIA.

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FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: (Amended) This bill imposes certain requirements and restrictions concerning the use of credit information in the underwriting of property and casualty insurance. The bill makes a willful violation of the requirements an unfair and deceptive act and practice in the business of insurance.

The bill also requires the Indiana Comprehensive Health Insurance Association (ICHIA) to have completed an annual actuarial study of ICHIA and submit a copy to the Legislative Council. The bill requires ICHIA to annually adjust premiums based on the actuarial study. (The introduced version of this bill was prepared by the Health Finance Commission.)

Effective Date: (Amended) July 1, 2002; January 2, 2004.

Explanation of State Expenditures: *Summary - ICHIA Actuarial Study:* This bill requires ICHIA to complete an annual actuarial study of the insurance program and to annually adjust premiums based on that study. Although there would be some additional cost imposed on ICHIA for conducting the actuarial study, annual adjustment of the premiums of ICHIA participants could reduce annual program losses from what they would otherwise be. This may potentially result in some amount of reduced revenue expenditures from the state General Fund and lower assessments on member companies.

Background: ICHIA is the high-risk insurance program offered by the state. ICHIA is funded through premiums paid by individuals obtaining insurance through ICHIA, by assessments to member companies (insurers, health maintenance organizations, and others that provide health insurance or health care coverage in Indiana), and the state General Fund. To be eligible, Indiana residents must show evidence of: (1) denied insurance coverage or an exclusionary rider; (2) one or more of the "presumptive" conditions such as AIDS, Cystic Fibrosis, or Diabetes; (3) insurance coverage under a group, government, or church plan making the applicant eligible under the federal Health Insurance Portability and Accountability Act (HIPAA); or (4) exhausted continuation coverage (e.g., COBRA). Premium rates must be less than or equal to 150% of the average premium charged by the five largest individual market carriers.

The net losses of ICHIA (the excess of expenses over premium and other revenue) is made up by assessments on member insurance carriers. Members may, in turn, (1) take a credit against Premium Taxes, Gross Income Taxes, Adjusted Gross Income Taxes, Supplemental Corporate Net Income Taxes, or any combination of these taxes; or (2) include in the rates for premiums charged for their insurance policies amounts sufficient to recoup the assessments. The amount of assessments that are recouped by insurance carriers through tax credits or premium increases is not known at this time.

The ICHIA Board at its February 2001 meeting approved a 27% premium rate increase for enrollees. This is the first rate increase since 1996. More frequent premium increases may result in a greater relative contribution by premium payors toward program costs. Although future annual premium increases that may result from an annual actuarial study are not known, estimated changes in relative contribution toward program costs by the various payors (the state, ICHIA participants, and ICHIA member companies) are provided in the following table. For example, a 5% increase in the aggregate premium contribution by the insureds is estimated to result in a $700,000 decrease in contribution by member insurance companies, a $1.3 M decrease in the contribution from the state, and a $2 M increase in premiums paid by the insureds (about $250 per enrollee per year based on 7,800 enrollees).

	Change in the Amount of Program Costs Paid By: **		
% Increase in Aggregate Premium Contribution	**State**	**Participant Premiums**	**ICHIA Member Companies**
5%	($1.3 M)	$2 M	($0.7 M)
10%	($2.6 M)	$3.9 M	($1.3 M)
15%	($4 M)	$5.9 M	($1.9 M)

** The cost shifts include only the changes associated with increasing the dollar contribution by participants and do not reflect likely decreases in participation (and resulting lower aggregate program costs) due to the higher premiums.

The following assumptions were used to develop a base scenario with which to compare the impact of increasing participant premiums:

(a) An enrollment level of 7,795 (based on the September 2001 enrollment).
(b) Average premium paid by participants of $412 per month, or $4,944 per year (July 2001).
(c) Program cost per participant of $10,038 (2000).
(d) Program cost inflation of 4.5% per year (CPI-U for Medical Care).
(e) No enrollment growth through 2003.
(f) No premium growth through 2003.
(g) 67.5% of tax credits can be utilized by members (based on a survey conducted by Outsourced Administrative Systems, administrator of ICHIA). [Note: The fiscal estimates provided are very sensitive to this assumption. However, no other estimates for the ability to utilize these tax credits has been found at this time.]

The base scenario from these assumptions would result in total program costs of $91 M in FY 2003; total premiums paid by participants of $39 M; and an estimated net program loss of $52 M to be made up by member assessments. Of this amount, an estimated 67.5% of the total assessments could be recouped in the form of tax credits. With these assumptions, the state would ultimately contribute about $35 M, or 38% of the total program cost, the Association members would contribute about $17 M, or 19% of total costs, and program insureds would contribute about $39 M through premium payments, or 43% of total program costs. The cost estimates in the table, above, are based on a comparison to this base scenario. All cost impacts in the table are estimates for FY 2003 only. However, these costs represent ongoing costs that would occur annually, and the costs would change in future years with inflation, enrollment changes, etc.

Explanation of State Revenues: (Revised) *Credit Information:* The bill makes a violation of the requirements for using credit information in underwriting certain insurance policies an unfair and deceptive act and practice in the business of insurance. Violation of these requirements by an insurer may result in the levying of civil penalties. Civil penalties will be deposited in the state General Fund.

The civil penalties set forth for committing an unfair and deceptive act and practice in the business of insurance are: $25,000 for each act or violation, or $50,000 for each act or violation if the person knew or reasonably should have known that he was in violation of this chapter. The remediation efforts undertaken by the person will be used in determining the amount of the civil penalty. In addition, if the person knew or reasonably should have known that he was in violation of this chapter, the Commissioner may suspend the person's license or certificate of authority.

The Department of Insurance may incur some administrative costs during the investigative process. In addition, the Department may incur contract fees for external review of credit scoring methodologies. The total fiscal impact of this bill is not known.

ICHIA Actuarial Study: See *Explanation of State Expenditures*, above, for the impact on state tax revenues from changes in the ICHIA program funding.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: ICHIA; Department of Insurance.

Local Agencies Affected:

Information Sources: